

A Study on Working Capital Management

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ABSTRACT:

Administration of Working Capital is one of the most vital functions of corporate management. Every organization whether public or private, profit oriented or not, regardless of its extent and nature of business, needs sufficient amount of working capital. The proficient working capital management is most critical factor in maintaining existence, liquidity, solvency and accomplishment of the any business organization. A company needs sufficient finance to carry out purchase of raw materials, payment of predictable operational expenses and funds to meet these expenses are together known as working capital.

KEY WORDS: *Finance, Capital, Liquidity of Capital, Business, Organization, Working Capital Management*

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I. INTRODUCTION:

Working capital management deals with the most dynamic fields in finance, which needs constant interaction between finance and other functional managers. The finance manager acting alone cannot improve the working capital situation. In recent times a few case studies regarding management of working capital in selected companies have been in order to make in-depth analysis of the several experts of working capital management, The finding of such studies not only throws new lights on the technical loopholes of management activities of the concerned companies, but also helps the scholars and researchers to develop new ideas techniques and methods for effective management of working capital.

S.J. ENGINEERING:

S.J Engineering Company was established in 1994 by a team of highly qualified and experienced professionals to employ the best engineering practices in the field of plumbing and sanitary installations. Under the careful supervision of seasoned professionals and a dedicated team of workers, technicians and site engineers, we are equipped to take up projects right from the pre-planning phase and see them through to completion. With a workforce of 25 staff and over 40 trained technicians and workers, we treat every project with the finest of attention to detail it requires.

There are new techniques, materials and innovations advancing the art of plumbing in several parts of the world, benefitting millions of end users. Little of that knowledge, expertise and benefits are reaching our part of the world. The reason is that this sector is highly fragmented and unorganized. We have two area site offices located at Ernakulum and Trivandrum to ensure a smooth and speedy execution. Over the 24 years of operations, we have completed over 85 plumbing and sanitary installation projects for apartments, hotels, hospitals, educational institutions and commercial complexes

VISION:

- SJ Engineering Company came into existence with a vision to achieve the highest standards of excellence in the plumbing sector in Kerala.
- They thought that a good, problem-free plumbing installation is fundamental to a comfortable life.

MISSION:

- Focus and maintain business in its most profitable segments while expanding into new business segments.
- Deliver exceptional client service with an unrelenting focus on value creation
- To set standards in service to customers.

- Pursue operational excellence with a strong focus on quality and margins

FUTURE OF S.J. ENGINEERING:

During the year, we focused on controlling costs and improving quality. We initiated steps to control inventory, reduce process costs and machine downtimes and ensuring efficient utilization of energy during the year. In doing this, our ERP system played a vital role in identifying addressable segments within the processes.

II. REVIEW OF LITERATURE:

- **Eljelly (2004)** Identified the relation between profitability and liquidity who was examined, as measured by current ratio and cash gap (cash conversion cycle) on a sample of joint stock firms in Saudi Arabia. The study found that the cash conversion cycle was of more importance as a measure of liquidity than the current ratio that affects profitability. The size variable was found to have significant effect on profitability at the industry level. The results were stable and had important implications for liquidity management in various Saudi firms.
- **Lazaridis and Tryfonidis (2006)** have explored the relationship between corporate profitability and WCM in the Athens Stock Exchange. The finding of results shows a negative relationship between profitability and working capital indicators like days of accounts receivable, account payable and cash conversion cycle. They concluded that firms can create profits by effectively handling each component of the cash conversion cycle.
- **Saswata Chatterjee (2010)** Focused on the importance of the fixed and current assets in the successful running of any organization. It poses direct impacts on the profitability liquidity. There have been a phenomenon observed in the business that most of the companies increase the margin for the profits and losses because this act shrinks the size of working capital relative to sales. But if the companies want to increase or improve its liquidity, then it has to increase its working capital.
- **Mohamad and Saad (2010)** Used Bloomberg's database of 172 listed companies randomly selected from Bursa Malaysia main board for five year period from 2003 to 2007. Applying correlations and multiple regression analysis, they found that current assets to total asset ratio shows positive significant relationship with Tobin Q, ROA and ROI. Cash conversion cycle, current asset to current liabilities ratio and current liabilities to total assets ratio illustrate negative significant relations with Tobin Q, ROA and ROIC.

III. OBJECTIVES OF THE STUDY:

- To ensure that the organization always has enough cash to meet its legal obligations and avoid illiquidity- that is, to maintain adequate short-term financial flexibility.
- To arrange to obtain whatever funds are required from external sources at the right time, in the right form, and on the best possible terms.
- To ensure that the organization's assets and liabilities – current and long-term, financial and operating are utilized as effectively as possible.
- To forecast and plan for the financial requirements of future operations.
- To make all decisions and recommendations on the basis of one primary criterion: maximizing the long-term value of the organization. This objective is attained in a publicly owned corporation through maximization of the wealth of the owners (stockholders) by maximizing stock price.

SAMPLE SIZE:

The study encompassed a representation of a sample of 30 respondents from S.J. engineering.

SOURCE OF DATA:

Primary Data:

Primary data has been obtained through personal discussions with managers and senior officials of the organization, observations and questionnaire both open ended and closed ended.

Secondary Data:

Secondary data has been obtained from published reports like the annual reports of the company, balance sheets, and profit and loss account, websites, records such as files, reports maintained by the company.

IV. METHOD OF DATA COLLECTION:

I have been collected data through both primary and secondary. Primary data from Questionnaire, Observation and Personal interview with CFO, executives and senior employees. Secondary data from annual reports and company websites.

**FINDINGS AND INTREPRETATION OF THE STUDY:
PERCENTAGE ANALYSIS:**

1.GENDER:

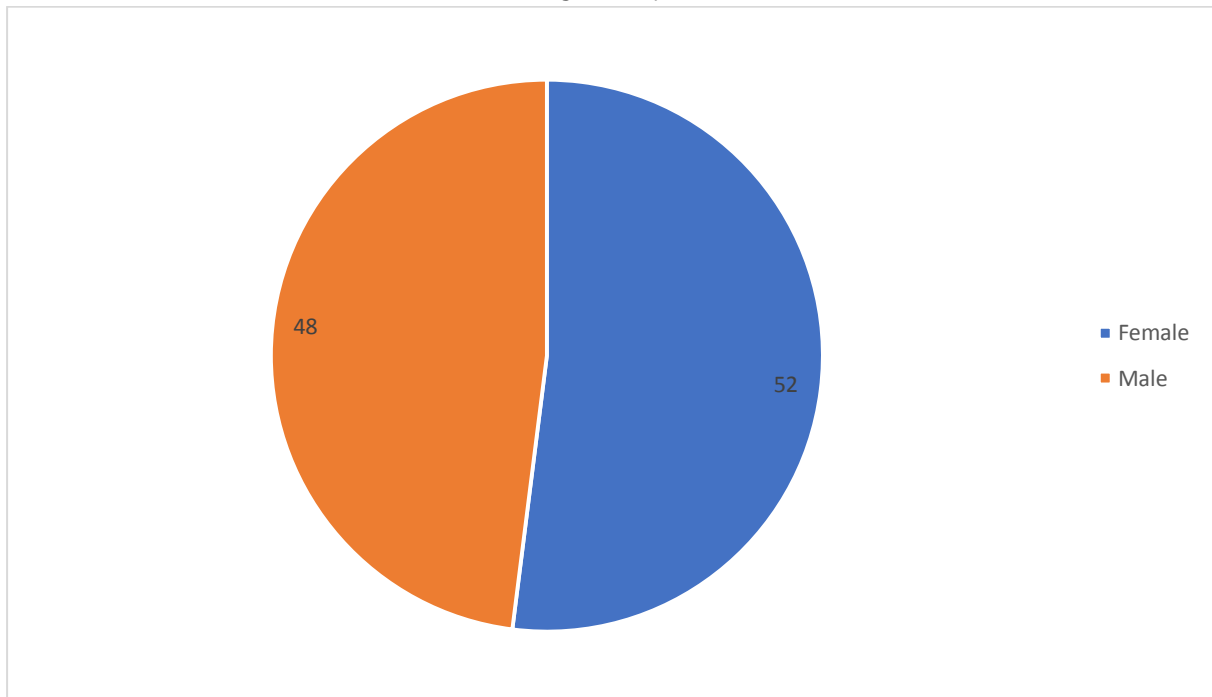
TABLE:

GENDER	NO. OF RESPONDENTS	PERCENTAGE
Male	107	48%
Female	156	52%
Total	263	100%

INFERENCE:

Majority of respondents are Female.

CHART:



2. Education wise classification:

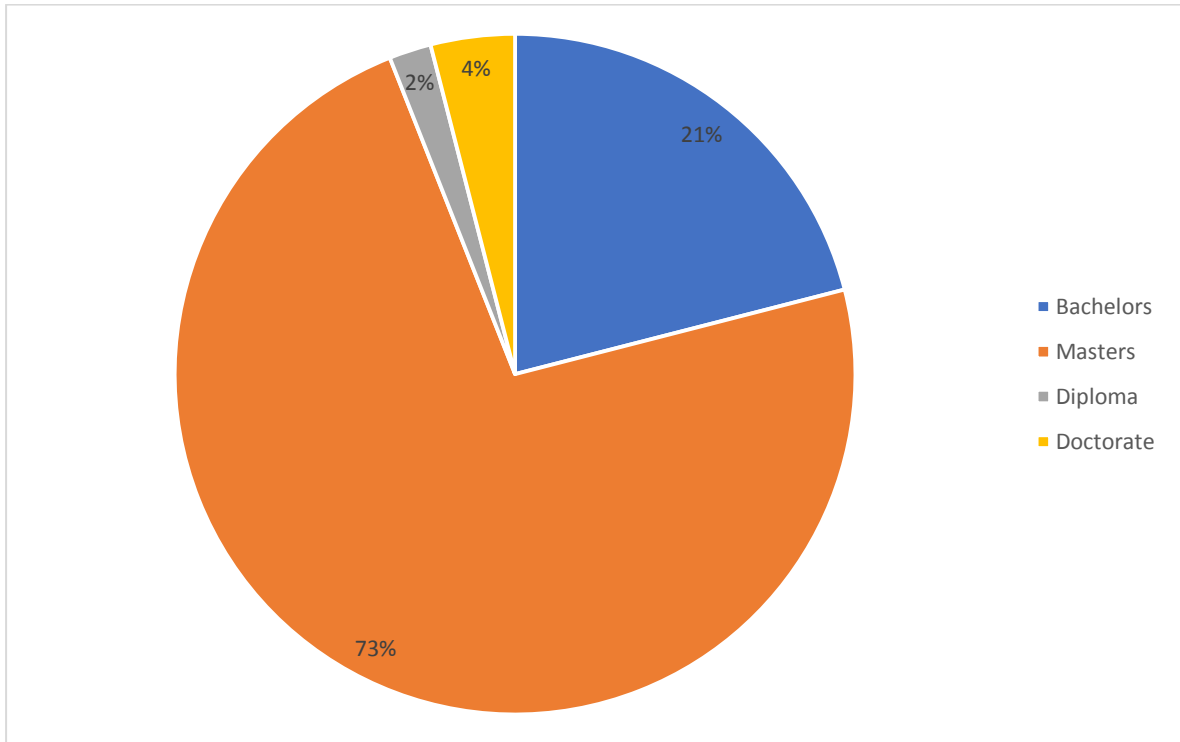
TABLE:

EDUCATIONAL QUALIFICATION	NO.OF RESPONDENTS	PERCENTAGE
Graduate	56	21%
Post-graduate	126	73%
Undergraduate	17	2%

INFERENCE:

Majority of respondents are post graduate.

CHART:



3. Credits wise classification

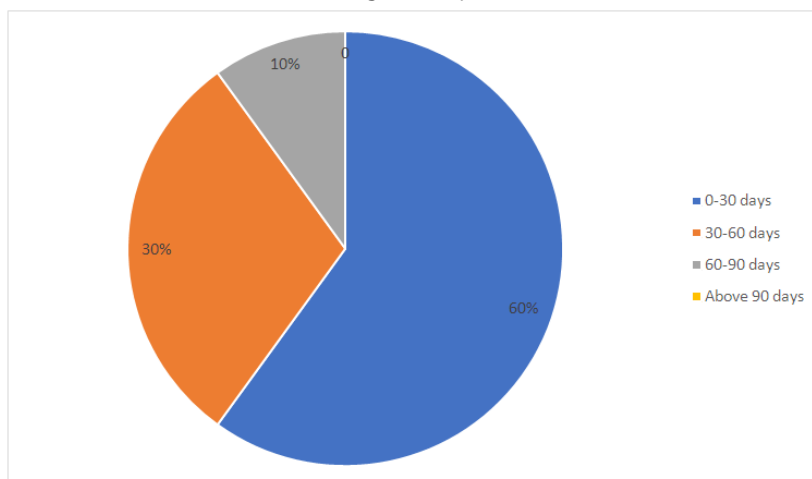
TABLE:

DIMENSION	NO. OF. RESPONDENTS	PERCENTAGE
0-30 days	135	60%
30-60 days	66	30%
60-90 days	26	10%
Above 90 days	10	0%

INFERENCE:

From the above table, Maximum respondents accounting to 60% have 0-30 days credits. 30% of the respondents gave 30-60 days of credits, 10% of the respondents have 60-90 days of credits

CHART:



V. FINDINGS OF THE STUDY:

- At the early stage, company facing many problems from suppliers because of low capital they are unable to make payment on time so more than 50% of suppliers are not supplying on credit basis. So that company has to make payment in advance and on delivery.
- Customers delaying invoice payment was deemed by survey respondents to have had a high or very high impact on working capital over the past 12 months. Similarly, customers exerting pressure on businesses to extend their credit and payment terms were also placing high or very high pressure on working capital.
- The main problem from suppliers i.e. 80% suppliers are from India from that 70% suppliers allowing 30 - 45 days credit and for rest of them company has to make payment in advance. 20% suppliers from rest of the country from that 40% of suppliers allowing 60 - 90 days credit and for rest of them company has to make payment in advance.
- Stretching credit period of suppliers is the main source to improve working capital but here it is not there. So this is one of the cause for working capital. Company spending a lot for unnecessary things therefore Company's expenditure is also more than income since 3 years.
- Since three years Receivables is more than Payables and borrowings is also more than advances & loans.

VI. SUGGESTIONS:

Debtors & Receivables:

- Company should keep reminding customers about outstanding amount on a weekly basis.
- Company should call and inform customers about cash discount offered for early payment.
- Company should try to convince customer for acceptance of bill so you can release cash from bank with discount.
- Company should count back debtor days as far as possible.

Creditors & Payables:

- Because of long outstanding amount suppliers are not ready to supply on credit so company should try to clear outstanding amount of suppliers so that they can ask more credit days as far as possible.
- Company should maintain good relationship with suppliers, for that they have to make payment on due date.
- Company should make payment on due date so they can escape from interest.

Inventory:

- Company should try to reduce inventory cycle.
- Company should ensure that on time delivery.

Liquidity:

- Company should maintain liquidity in bank so they can meet urgent needs.

Cash Conversion Cycle:

- Since 3 years inventory days and receivables days are more than payables days which should be less. So they should work on it.

VII. CONCLUSION:

Liquidity is an attribute that signifies the capacity to meet financial obligations of the company when required. The importance of liquidity to meet the day to day operations and urgent payment to suppliers. A firm should maintain adequate level of working capital to meet the day to day operations and maintain business operations. The effective management of working capital requires both medium-term planning and immediate reactions to the fast changes taking in the present business environment. The effectiveness of working capital depends on all current assets and current liabilities.

S.J. Engineering should count back credit days of customers and they should keep reminding them about outstanding amount and they should give discount offers for early payment. Company should settle outstanding amount of suppliers and maintain good relationship then they should pull suppliers credit days as far as possible.

Raw materials used to be in factory for high period to convert into finished goods. Receivables days also more so more days tied up with inventory and receivables. Therefore S.J. Engineering should be taken care of operating cycle and cash conversion cycle.

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